

Request for City Council Action

Date: November 25, 2002

To: Council Member Lisa Goodman, Community Development Committee,

Prepared by Bob Lind, Manager, Business Finance, Phone 612-673-5068

Approved by Chuck Lutz, MCDA Interim Executive Director _____

Subject: A Public Hearing and Request for Preliminary Approval of up to \$5 Million in 501(c)(3) Tax-exempt Revenue Bonds for the Minnesota Cardiovascular Research Institute Project.

Previous Directives: None. Project is request preliminary approval on the issuance of conduit revenue bonds financing at this time.

Ward: 8

Neighborhood Group Notification: On October 9, 2002 the Midtown Phillips neighborhood group was notified of this pending project.

Consistency with *Building a City That Works*: The improvements to the 1964 Sears Annex Building are consistent with Goal 4 of preserving and enhancing the urban institutions and amenities that define Minneapolis.

Comprehensive Plan Compliance: The project by the Minnesota Cardiovascular Research Institute is consistent with the City's comprehensive plan.

Zoning Code Compliance: The medical research facility is zoned C2 - Neighborhood Corridor Commercial District and is adjacent to an Activity Center that anticipates medium-to-high density redevelopment.

Impact on the MCDA Budget:

- ☐ No financial impact
- ☐ Action requires an appropriation increase to the MCDA Budget
- ☐ Action provides increased revenue for appropriation increase
- ☐ Action requires use of contingency or reserves
- ☒ Other financial impact (Explain): The issuance of 501(c)(3) tax-exempt revenue bonds will generate annual administrative fees that are used to support the small business assistance programs of the City.

Living Wage/Business Subsidy: Does not apply. The project is a 501(c)(3) conduit financing that is not subject to Living Wage/Business Subsidy.

Job Linkage: The Agency will work with Minnesota Cardiovascular Research

Institute on a job linkage agreement.

Affirmative Action Compliance: In compliance.

RECOMMENDATION:

City Council Recommendation: The Interim Executive Director recommends that the City Council adopt the attached Resolution, a summary of which will be published following a Public Hearing held on October 28, 2002 and continued to November 25, 2002, notice of which was published in Finance and Commerce on October 12, 2002, giving Preliminary Approval to the issuance of up to \$5 million in 501(c)(3) Tax-exempt Revenue Bonds for the Minnesota Cardiovascular Research Institute Project.

Background/Supporting Information

PROJECT LOCATION & DESCRIPTION:

Minnesota Cardiovascular Research Institute (MnCRI) is a Minnesota nonprofit as an operating division of the Minneapolis Heart Institute Foundation. MnCRI proposes to own and operate a preclinical cardiovascular research facility to be located in the 1964 Annex Building, a portion of the old Sears complex at 2901 Elliot Avenue South. The property on which the laboratory facilities will be located will be leased by MCDA to MnCRI.

TYPE OF FINANCING:

It is proposed that up to \$5 million in 501(c)(3) tax-exempt revenue bonds would be issued to finance the cost of purchasing equipment necessary for conducting research in the facility. It is expected that the revenue bonds will be privately placed with accredited investors.

Sources:

Tax-exempt Revenue Bonds Series 2002	\$5,000,000
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Uses:

Purchase of Medical Research Equipment	\$5,000,000
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PRESENT EMPLOYMENT:

The work that the Minnesota Cardiovascular Research Institute is doing now is farmed out and leased to other providers. The project will bring the

work to the 1964 Annex Building.

NEW EMPLOYMENT:

It is anticipated that a number of new jobs will be generated as a result of this project. Much of the current work is currently leased out, this project will bring the workforce of 40-50 employees to this site.

ASSESSOR'S ESTIMATED
ANNUAL TAX INCREASE:

Medical facilities are generally tax-exempt based on their 501(c)(3) nonprofit status.

AFFIRMATIVE ACTION COMPLIANCE:

In compliance.

MCDA IRB POLICIES:

Job Component

Minimum standard of one (1) job per 1,000 square feet of building area.

MnCRI: In compliance.

Property Improvements

No more than 25% of the bond proceeds may be used for land and acquisition. If purchasing an existing building, an amount equal to at least 15% of the acquisition cost must be spent on rehabilitation expenditures.

MnCRI: All bond proceeds being used for equipment purchases.

Development Standards

Compliance with the Land Use Plan of the City's Comprehensive Plan.

MnCRI: Project complies.

Equipment Financing

Limited to companies that create or preserve a significant number of jobs, and the equipment financed must be

sufficiently secured. No more than 10% of the bond proceeds may be used to finance movable equipment not constituting a fixture.

MnCRI: The medical research equipment financed with this bond issue will create a significant number of new jobs.

Restaurant/Bank

IRB financing is allowed for a restaurant or a bank if it is built or rehabilitated in an MCDA Redevelopment Area. No more than 25% of the bond proceeds can be used to finance retail food and beverage establishments, automobile dealerships or recreation or entertainment facilities.

MnCRI: N.A.

Tax-exempt Institution

Refinancing is permitted when new jobs are created or when a significant number of jobs are preserved; any interest cost savings must directly reduce patient costs.

MnCRI: N.A. No refinancing as part of this project.

IRB CAP:

The project is not subject to the volume cap, in that the project is exempt from income tax under Internal Revenue Code Section 501(c)(3) for its exempt purposes and is classified thereunder as a non-profit organization.

BOND COUNSEL:

Best & Flanagan, LLP

AUTHORIZING THE ISSUANCE OF INDUSTRIAL DEVELOPMENT
REVENUE BONDS BY THE CITY OF MINNEAPOLIS PURSUANT TO
MINNESOTA STATUTES SECTION 469.152 THROUGH 469.1651 AND THE
SUBMISSION OF AN APPLICATION FOR APPROVAL TO THE
MINNESOTA DEPARTMENT OF TRADE AND ECONOMIC DEVELOPMENT

WHEREAS, pursuant to Minnesota Statutes, Sections 469.152 through 469.1651, known as the Minnesota Municipal Industrial Development Act (the “Act”), the City of Minneapolis, Minnesota (the “Issuer”) is authorized to issue revenue bonds to finance the acquisition and construction of projects, as defined in Section 469.153, Subd. 2, including any real or personal properties used or useful in connection with a revenue producing enterprise; and

WHEREAS, the Issuer has received a request that it issue qualified tax-exempt industrial development revenue bonds to assist Minnesota Cardiovascular Research Institute, LLC (“MnCRI”), a limited liability company whose sole member is Minneapolis Heart Institute Foundation, a nonprofit corporation and 501(c)(3) organization, in financing the acquisition by MnCRI of certain equipment necessary to conduct research at a pre-clinical cardiovascular research facility to be located at 2901 Elliot Avenue South in the City of Minneapolis (the “Project”); and

WHEREAS, the Project will be owned and operated by MnCRI; and

WHEREAS, the aggregate face amount of revenue bonds proposed to be issued to finance the Project is presently estimated not to exceed \$5,000,000; and

WHEREAS, MnCRI has paid and expects to pay certain expenditures (the “Reimbursement Expenditures”) in connection with the Project prior to the issuance of indebtedness for the purpose of financing costs associated with the Project on a long-term basis and certain of the proceeds of the Bonds will be used to reimburse the Reimbursement Expenditures;

WHEREAS, the Issuer has been advised by representatives of MnCRI that conventional, commercial financing to pay the capital cost of the Project is available only on a limited basis and at such high costs of borrowing that the economic feasibility of operating the Project would be significantly reduced; and

WHEREAS, a public hearing on the Project was held on October 28, 2002 and continued to November 25, 2002 after notice was published, at which public hearing all those who desired to speak were heard; and

WHEREAS, no public official of the Issuer has either a direct or indirect financial interest in the Project nor will any public official either directly or indirectly benefit financially from the Project.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MINNEAPOLIS:

1. The Issuer hereby gives preliminary approval to the proposal of MnCRI to finance the Project pursuant to the Act through the issuance of the Issuer's qualified tax-exempt bonds (the "Bonds").

2. On the basis of information available to the Issuer it appears, and the Issuer hereby finds, that the Project constitutes properties, real and personal, used or useful in connection with a revenue producing enterprise within the meaning of Subdivision 2(b) of Section 469.153 of the Act; that the Project furthers the purposes stated in Section 469.152.

3. The Project is hereby given preliminary approval by the Issuer subject to, among other things, the approval of the Project by the Minnesota Department of Trade and Economic Development or such other state office having authority to grant approval (the "DTED"), and subject to final approval by MnCRI and the purchaser of the Bonds as to the ultimate details of the financing of the Project.

4. In accordance with Subdivision 3 of Section 469.154, the Mayor of the Issuer is hereby authorized and directed to submit the proposal for the Project to DTED requesting its approval, and other officers, employees and agents of the Issuer are hereby authorized to provide DTED with such preliminary information as it may require.

5. MnCRI has agreed and it is hereby determined that any and all costs incurred by the Issuer in connection with the financing of the Project, whether or not the Project is carried to completion and whether or not approved by the Issuer, will be paid by MnCRI.

6. Nothing in this resolution or in the documents prepared pursuant hereto shall authorize the expenditure of any Issuer funds on the Project other than the revenues derived from the Project or otherwise expressly granted to the Issuer for this purpose. The Bonds shall not constitute a charge, lien or encumbrance, legal or equitable, upon any property or funds of the Issuer except the revenue and proceeds pledged to the payment thereof, nor shall the Issuer be subject to any liability thereon. The holder of the Bonds shall never have the right to compel any exercise of the taxing power of the Issuer to pay the outstanding principal on the Bonds or the interest thereon, or to enforce payment thereof against any property of the Issuer. The Bonds shall recite in substance that the Bonds, including interest thereon, are payable solely from the revenue and proceeds pledged to their payment. The Bonds shall not constitute a debt of the Issuer within the meaning of any constitutional or statutory limitation.

